

September 8, 1999

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
The Portals
445 Twelfth Street, S.W.
Room TW-A325
Washington, DC 20554

Ex Parte

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY**Re: WT Docket No. 98-205 (CMRS Spectrum Aggregation Limits)**

Dear Ms. Salas:

Today PCIA President Jay Kitchen and staff member Mary Madigan Jones met with Commissioner Harold Furchtgott-Roth. PCIA discussed the substance of its comments and reply comments and discussed new developments in the PCS and cellular markets. PCIA provided the Commissioner with two recent studies commissioned by PCIA to determine the state of competition in the wireless voice market and the impact of PCS introduction on consumer prices. PCIA also provided them with a PCIA document entitled "PCIA Supports the Spectrum Cap." PCIA also provided Commissioner Michael Powell with a copy of these documents. These materials are attached.

Personal
Communications
Industry
Association

PCIA Supports a Stringent Waiver Standard for All Markets

PCIA also discussed the appropriateness of granting individual waivers of the cap and the value of raising the cap in rural markets. PCIA believes that the Commission can handle these situations by establishing one stringent waiver standard, not by modifying the cap in rural markets. PCIA shares the FCC's interest in ensuring that the cap is not an inadvertent barrier to those carriers that wish to deploy advanced broadband services, but are unable to do so without exceeding the cap. As PCIA stated in its comments, the Commission should consider a waiver when presented with the appropriate set of circumstances demonstrating that the spectrum cap is "preventing a particular market from receiving a particular innovation or service... However, any waivers granted should be granted upon a demonstration of public need, not the mere desires of a particular competitor to acquire additional spectrum." A waiver would place the burden on the requester to provide specific factual reasons as to why it cannot provide a particular service or serve a particular area without exceeding the cap. The requester should also make a commitment to use the spectrum for the particular service, or in the case of rural areas, to expand service to currently unserved areas.

PCIA is concerned that if the waiver process is not carefully managed, the cap could be undermined by blanket grants that will encourage the consolidation of spectrum holdings within markets instead of encouraging the buildout of independent wireless networks.

The Telecompetition Study Shows a Still-Concentrated Wireless Voice Market

In PCIA's Reply Comments filed with the Commission on February 10, 1999, we included a market data report prepared by Telecompetition, Inc. showing estimates of PCS, SMR and cellular subscribers in the Top 200 MSAs as well as an estimate of PCS market share in relation to cellular and SMR subscribers (See Attachment A of the Reply Comments). For the purpose of refreshing the record and providing the Commission with the most up-to-date information possible, PCIA requested Telecompetition, Inc. to update its report.

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This newest report shows the continuing positive trends in the growth of PCS market share. Nevertheless, the mobile two-way voice market remains extremely concentrated even in the Top 20 MSAs, where the fastest PCS rollout can be expected to occur. In smaller markets, PCS is still in the process of building out facilities and then market share. We believe that the Commission's spectrum cap has been a catalyst for the rollout of independent, facilities-based PCS networks, but that this process is by no means complete. The Telecompetition estimate indicates that cellular's share is still approximately 80 percent in these top 20 markets, and 88 percent overall.

In February, almost 50 percent of the top 200 MSA's consumers did not yet have an alternative to cellular. Today, in 43 percent of the top 200 markets consumers still do not have a choice. In February, combined PCS subscribership did not exceed 25 percent in any top 200 MSA. Today, PCS subscribership exceeds 25 percent in only 11 percent of markets (22/200 markets).

Based upon the Telecompetition estimates, in February PCS operators had an average 7.6 percent market share in the top 200 MSAs. Today, the average market share has increased to 12 percent. PCIA notes here that Telecompetition's methodology typically overestimates PCS market share by factoring in a significant bump in PCS market share when the carrier begins operations in any given market.

PCS carriers are clearly continuing to build out independent networks, but, as this data indicates, it takes some time to build up a critical mass of customers. This is particularly true where the embedded base developed by the two cellular incumbents in each MSA –approaching 100 percent market share before the Commission authorized PCS – is so large. Many PCS carriers are relatively new licensees and have yet to enter the marketplace at all, but can be expected to do so in the next few years consistent with the Commission's construction and operation deadlines.

The Yankee Group Study Demonstrates the Positive Impact on Prices of New Mobile Competitors

PCIA sought to quantify the impact of the introduction of PCS services on the price of wireless telephone service in major U.S. markets. PCIA retained the Yankee Group to conduct this study because of Yankee's established expertise in tracking mobile telephone pricing based on per minute of use, which Yankee refers to and explains in its report as a Bundled Price per Minute (BPPM). We believe that the use of Yankee Group's BPPM model provides a realistic view of what the typical consumer has experienced in these markets as PCS has come to market.

The Yankee Group study quantitatively demonstrates the positive pricing trends to which PCIA, among others, have linked to the introduction of multiple, independent PCS networks:

- The introduction of the first PCS service in a market has typically caused a drop in overall wireless voice prices on a BPPM basis and the downward trend then continues with the introduction of additional PCS service providers.
 - For example, in New York City, the BPPM dropped 18% with the entry of the first PCS carrier and fell a further 30% when the second carrier launched service. In Los Angeles, prices dropped 17% when the first PCS carrier entered the market and another 46% with the entry of the second PCS carrier.
 - The average BPPM in the Top 25 U.S. markets dropped 10% after the entry of the first PCS service and a further 25% after the launch of the second PCS service.

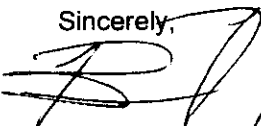
- Cellular prices have significantly decreased due to the launch of PCS competition.
 - For example, in New York City, digital cellular prices fell by 52% with the introduction of PCS; in Los Angeles, digital cellular prices fell by 52% while analog cellular fell by 47%.
 - For the Top 25 U.S. markets, digital cellular prices have fallen by an average of 38% and analog prices by an average of 12% on a BPPM basis since the introduction of PCS.
- Overall wireless prices will continue to fall as independent PCS operators gain market share.
- The more wireless players in a market, the lower the average price for all wireless services in that market.
- As wireless prices have fallen, more and more Americans have been able to afford the wireless alternative, with PCS driving a major part of the growth in wireless penetration.

The Yankee Group study reflects extremely positive news for wireless consumers. And these positive pricing trends come at a time when PCS is just beginning to rollout in many major U.S. markets and is yet unavailable in many mid-sized markets. That PCS is still in its early stages of rollout is clear from the Telecompetition Inc. Report recently submitted for the record by PCIA.

We believe that the Commission's spectrum cap has been the catalyst for the rollout of independent, facilities-based PCS networks, and the significant decrease in wireless prices that consumers have experienced. PCS providers have also been at the forefront of introducing digital service, bundled service offerings such as paging and voice mail and innovative pricing plans such as first incoming minute free and "bucket" pricing plans. The Commission should not short-circuit these positive trends by permitting a wave of consolidations at this early stage of mobile voice competition. The spectrum cap is having its desired impact and should be retained until the Commission sees further progress in these trends and determines how it will ensure that customers continue to have real choice.

Pursuant to Section 1.1206 of the Commission's Rules, PCIA is filing one original and one copy of this letter with your office. If you have any questions regarding this filing, please feel free to contact me.

Sincerely,



Brent H. Weingardt Vice President, Government Relations
Personal Communications Industry Association

cc: Commissioner Powell
Commissioner Furtchgott-Roth

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Federal Communications Commission
Office of Secretary



Order # 082352

MARKET DATA REPORT

for
PCIA

August 23, 1999

Contact: Customer Service
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About Telecompetition Inc.

Founded in 1996, Telecompetition, Inc. is committed to software and process development to produce reliable, trackable industry market data of metropolitan areas and finer granularity across a wide range of products. We provide consistency with global, national research and forecasts provided by well respected telecommunications research and other industry analysts.

About the ATIVA Research Tools

We achieve this with our flagship system called ATIVA Research Tools (patent pending). These tools perform sophisticated computations on both demand and supply side external industry data to produce historic and forecasted revenues and other market size information.

ATIVA Research Tools uses sophisticated algorithms to calculate product revenues to smaller geographic areas. Factors considered in the calculations include demographics, relative use by household income, age, industry characteristics, workforce population, propensity-to-buy profiles, deployment / service availability and other current market and technology drivers.

With ATIVA Research Tools, Telecompetition applies the rigor of a proprietary, adaptive forecasting technology with the expertise of market analysts to provide reliable, consistent market information at the state, BTA/MTA, county or metropolitan level. International extensions of the capabilities are under development.

Other Telecompetition® Products

Telecompetition® products include a number of geographic forecasts on disk for other wireless and wireline telecommunications services such as PCS, Cellular, Paging, SMR/ESMR, long distance and local access. Custom data queries, consulting and market research are also available.

The Telecompetition® TRAFFICast service provides standard and customized route-level forecasts for traffic sensitive services.

The Impact of PCS Service on U.S. Wireless Pricing

September 2, 1999

Wireless/Mobile Communications

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Agenda

- **Description of Pricing Methodology**
- **National Summary of the Impact of PCS Introduction on Wireless Pricing and Competition**
- **Price Declines in the Top 25 Markets after PCS Launches**
- **Price Changes for Analog and Digital Cellular in the Top 25 Markets after PCS Launches**

What is the Bundled Price per Minute?

- **Bundled Price per Minute (BPPM) is a methodology used by the Yankee Group to benchmark rate plans promoted by different carriers in different markets**
- **For each rate plan, BPPM considers monthly access fees, included minutes, per minute airtime charges in excess of the included minutes, and first incoming minute charges**
- **The BPPM Model automatically selects the best available price per carrier at five levels of monthly usage-60, 100, 250, and 500 Minutes of Use (MOUs)**



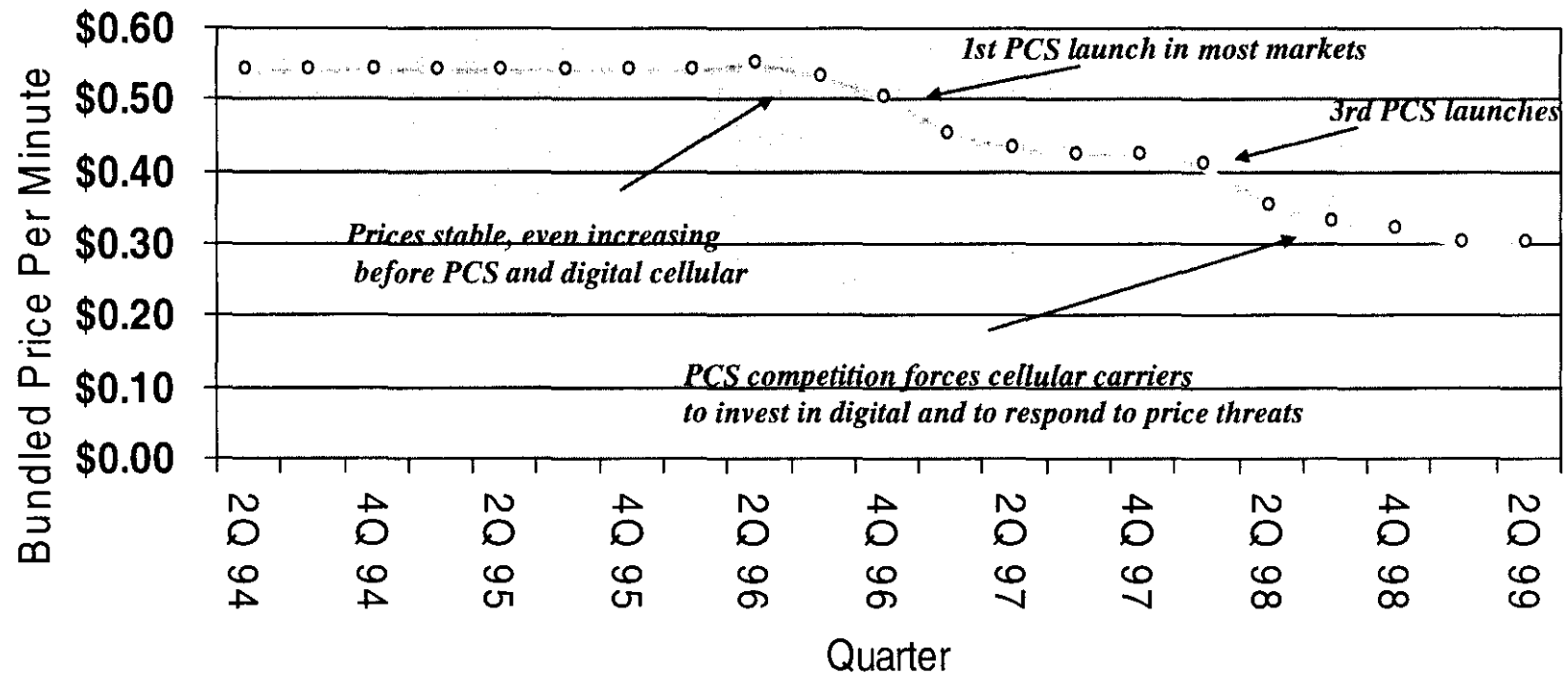
Why Use the BPPM Model?

- Any one rate plan may or may not be the cheapest wireless service to use across different levels of MOU
- When consumers purchase wireless service, their usage decisions still depend heavily on price
- The purpose of the BPPM Model is to present a price-based comparison for usage costs across multi-carrier environments

BPPM Model Assumptions

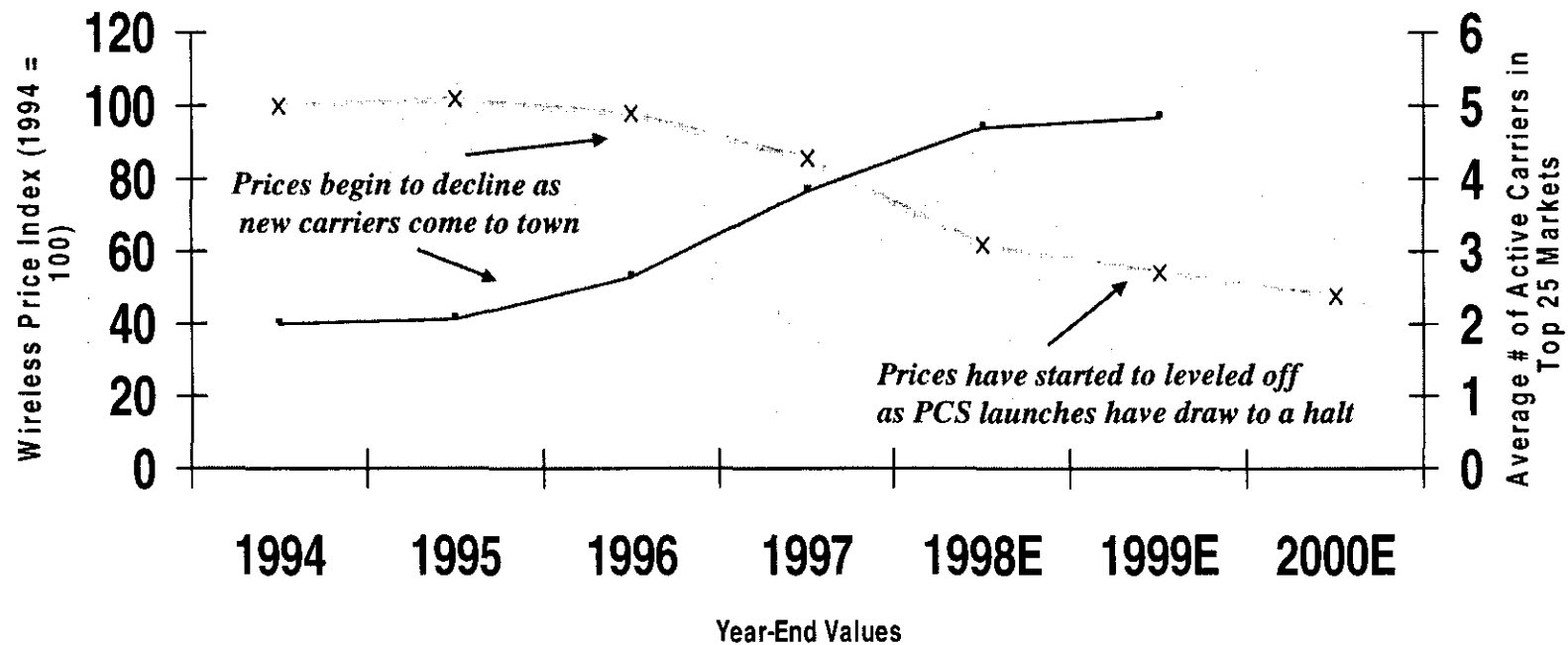
- BPPM is a usage-based analysis; it does not take into consideration activation/connection fees or equipment costs
- The BPPM Model excludes special promotional plans which are constantly changing, and hence may not be the best indicator of the “going” rates for wireless usage
- When MOU ≤ 60 , 30% of calls are during Peak hours, and 70% of calls are during Off-Peak hours
- When MOU > 60 , 70% of calls are during Peak hours, and 30% of calls are during Off-Peak hours
- 65% of calls are Outgoing, and 35% of calls are Incoming

Introduction of PCS Stirs Cellular Pricing



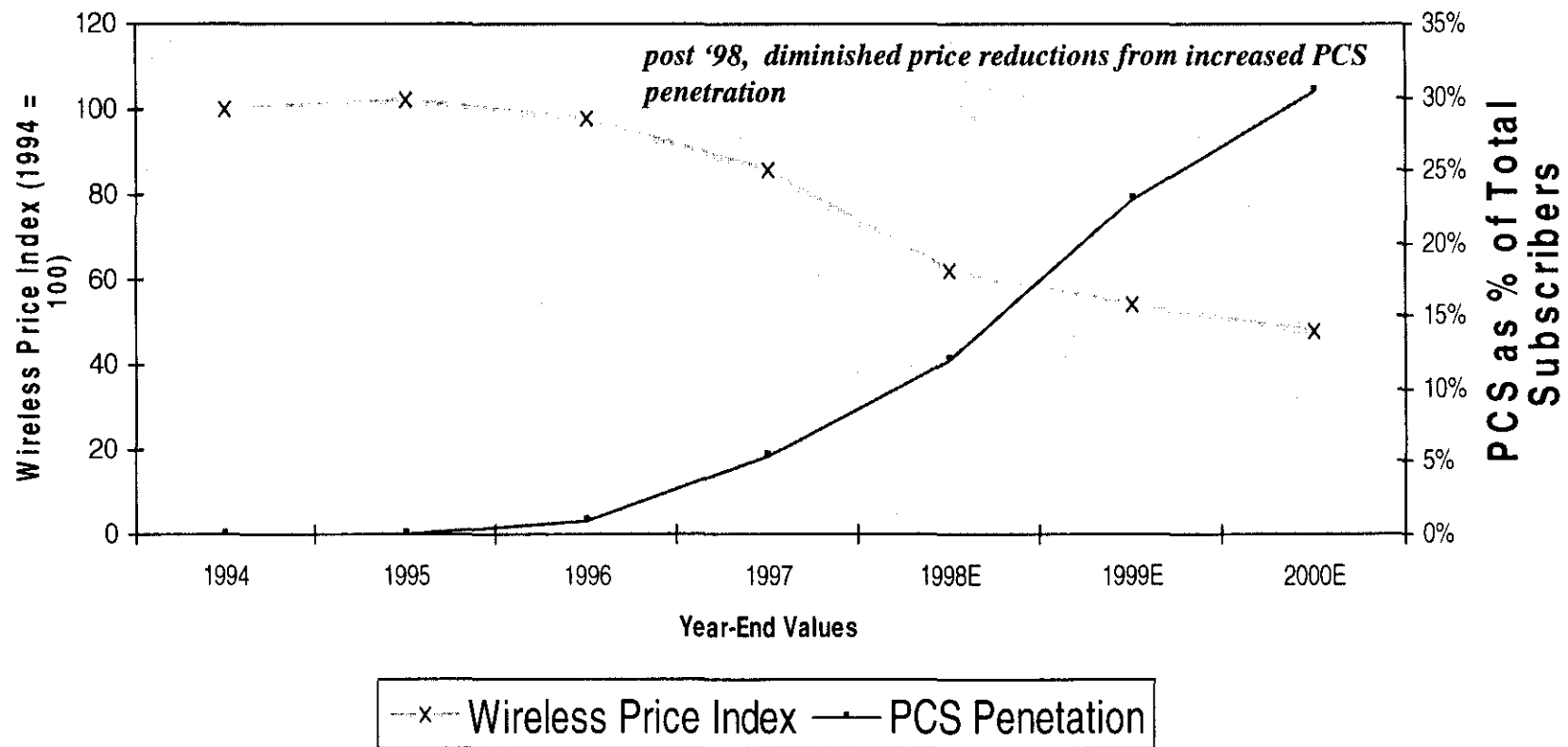
—○— Cellular (Lowest of Analog or Digital Cellular) — PCS

More Players in the Market Means Lower Average Prices

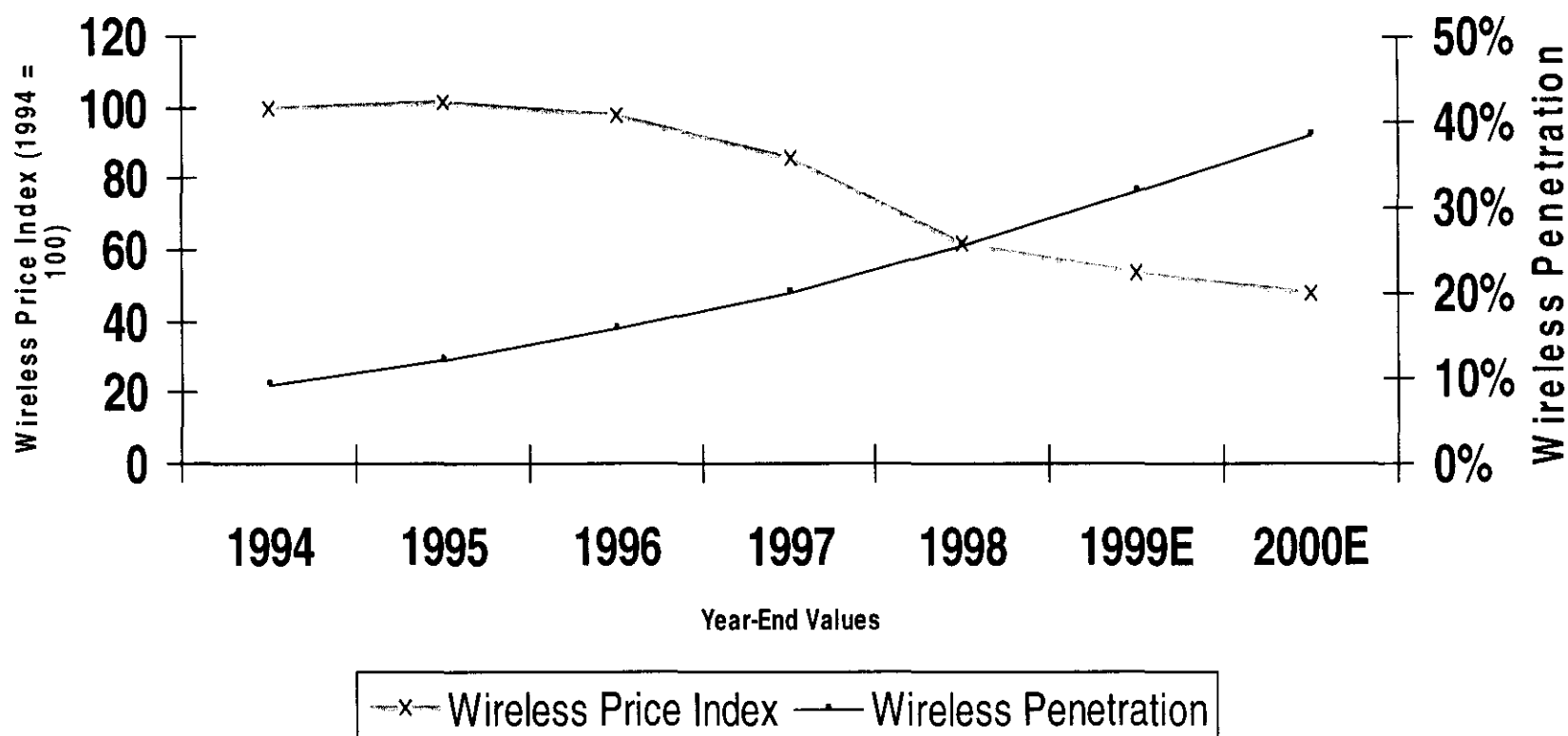


---x--- Wireless Price Index —●— # of Carriers Per Market

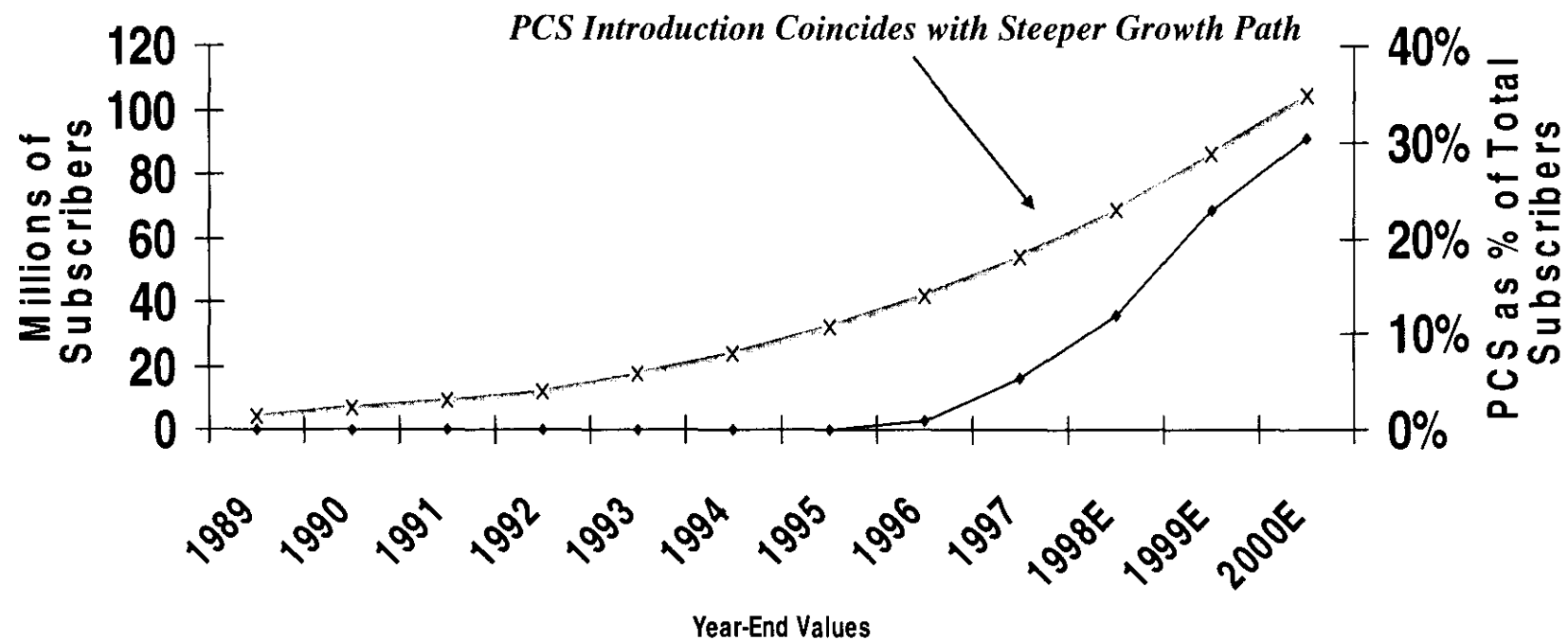
As PCS Penetrates the Market, Prices Fall



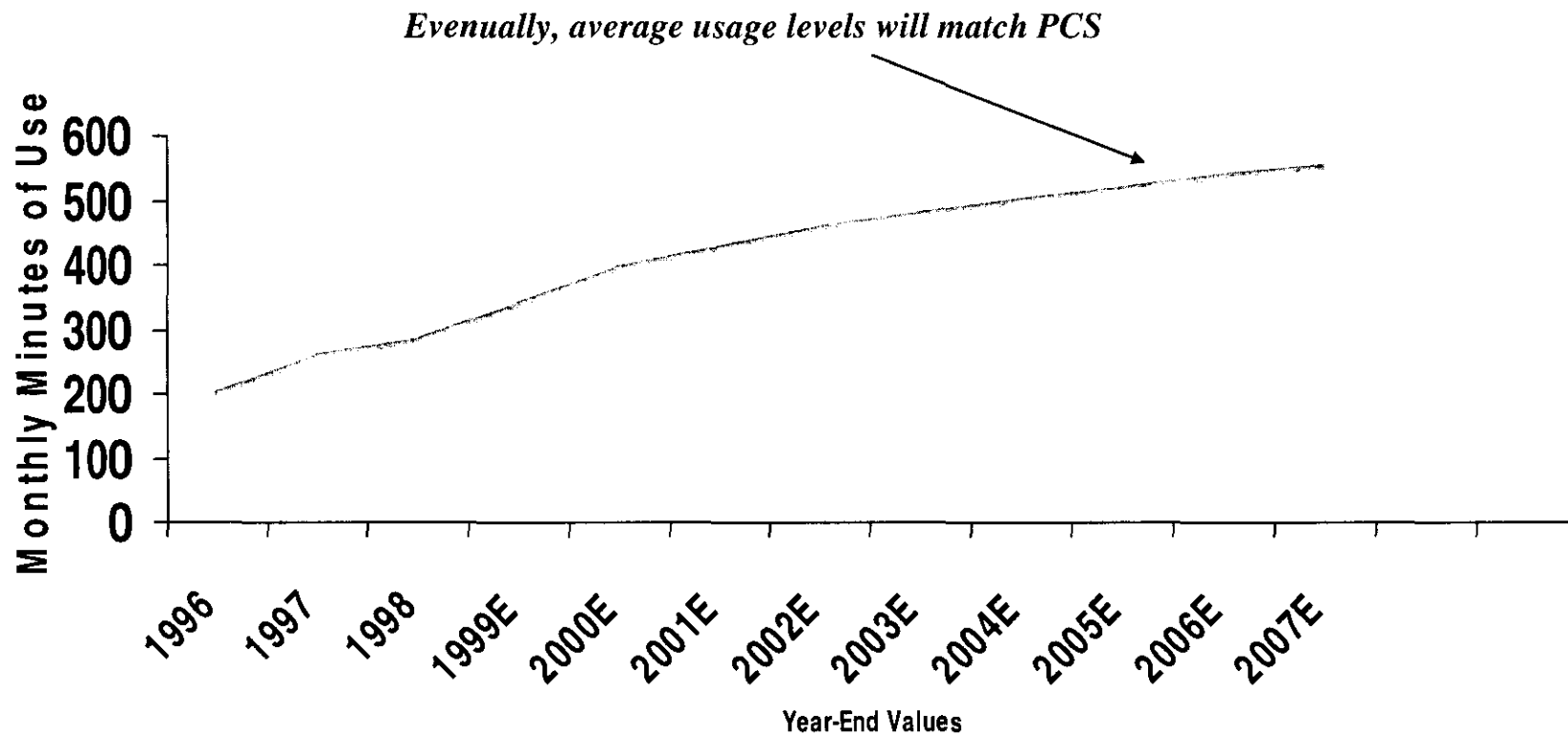
As Prices Fall, More Americans Use Wireless Phones



PCS Penetration has Helped Wireless Industry Maintain Momentum



PCS Users Lead the Way in MOUs



What PCS Brought to the U.S. Market

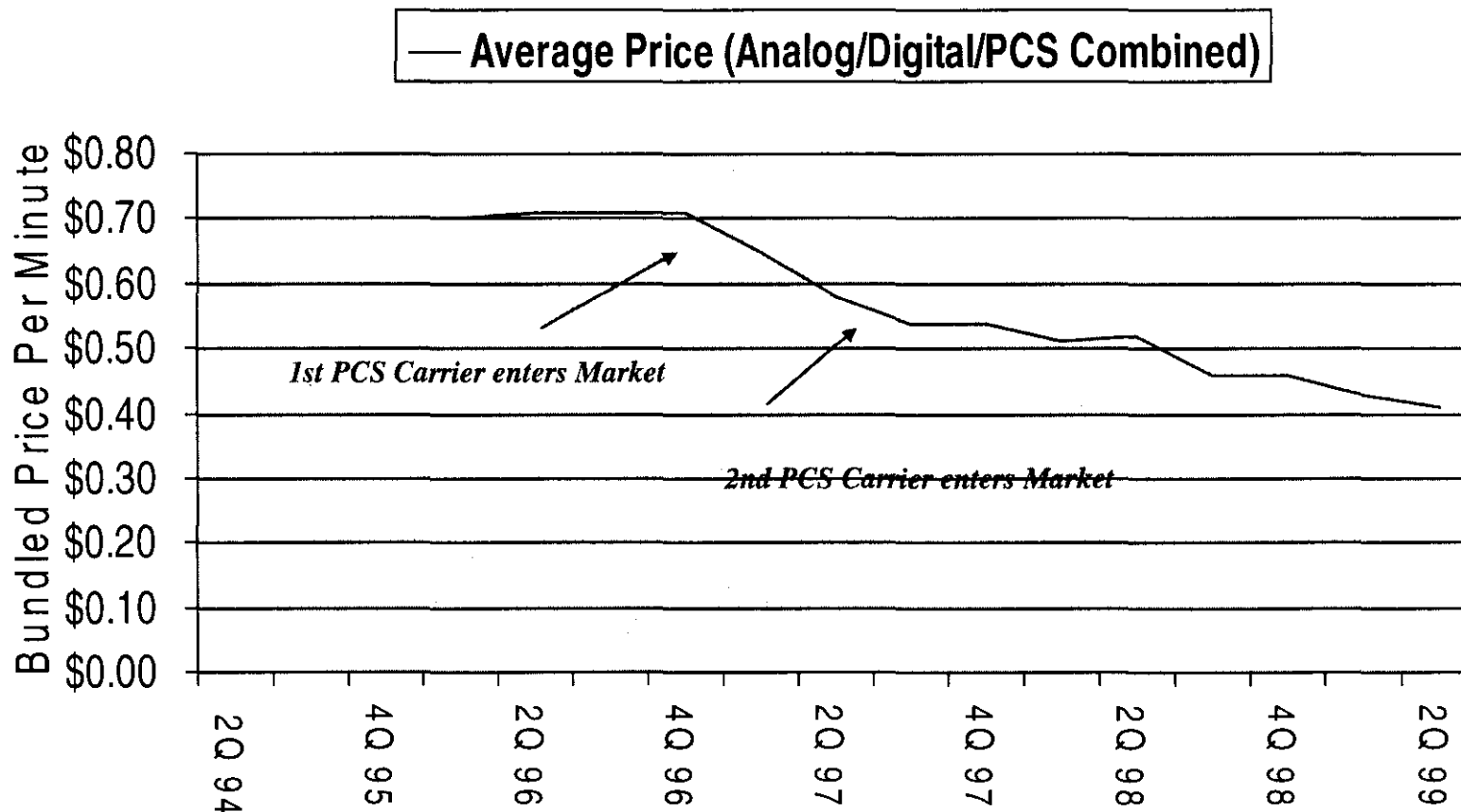
- **Lower prices**
 - PCS Carriers entered markets at price points 30% below analog cellular and...
 - Offered big-bucket plans that encouraged increased usage and thus lowered effective per minute prices
- **Technology shift to digital**
 - The big-bucket plans and claims of superior sound quality forced cellular carriers to adapt digital technology earlier than they might have otherwise
 - 35% of the wireless subscriber base are now using a digital phone
- **Mainstreaming of wireless**
 - On average, PCS customers use over 300 minutes of monthly airtime (almost 3 times the historical average)
 - » Wireless is no longer a luxury item to be used in emergencies only
 - From the user's perspective, wireless is more "simple"
 - » Since the introduction of PCS, roaming charges and peak/off-peak price differences have disappeared on select plans
 - » Users are worrying less about extra charges
- **Greater diversity of wireless consumer service**
 - Over 40% of Prepaid Subscribers are PCS
 - Since PCS carriers (and Nextel) have launched service, 1st incoming minute free has become a standard offer and per-second billing is available in select markets.
 - Digital wireless service has led to a greater variety of enhanced service offerings and new mobile data applications



City Pricing

- The following 50 slides show price declines in each of the top 25 markets
 - Prices are calculated by weighing the Bundled Price Per Minute (BPPM) at different usage levels
 - For each city, we show aggregated price declines and declines in PCS, analog cellular, and digital cellular pricing

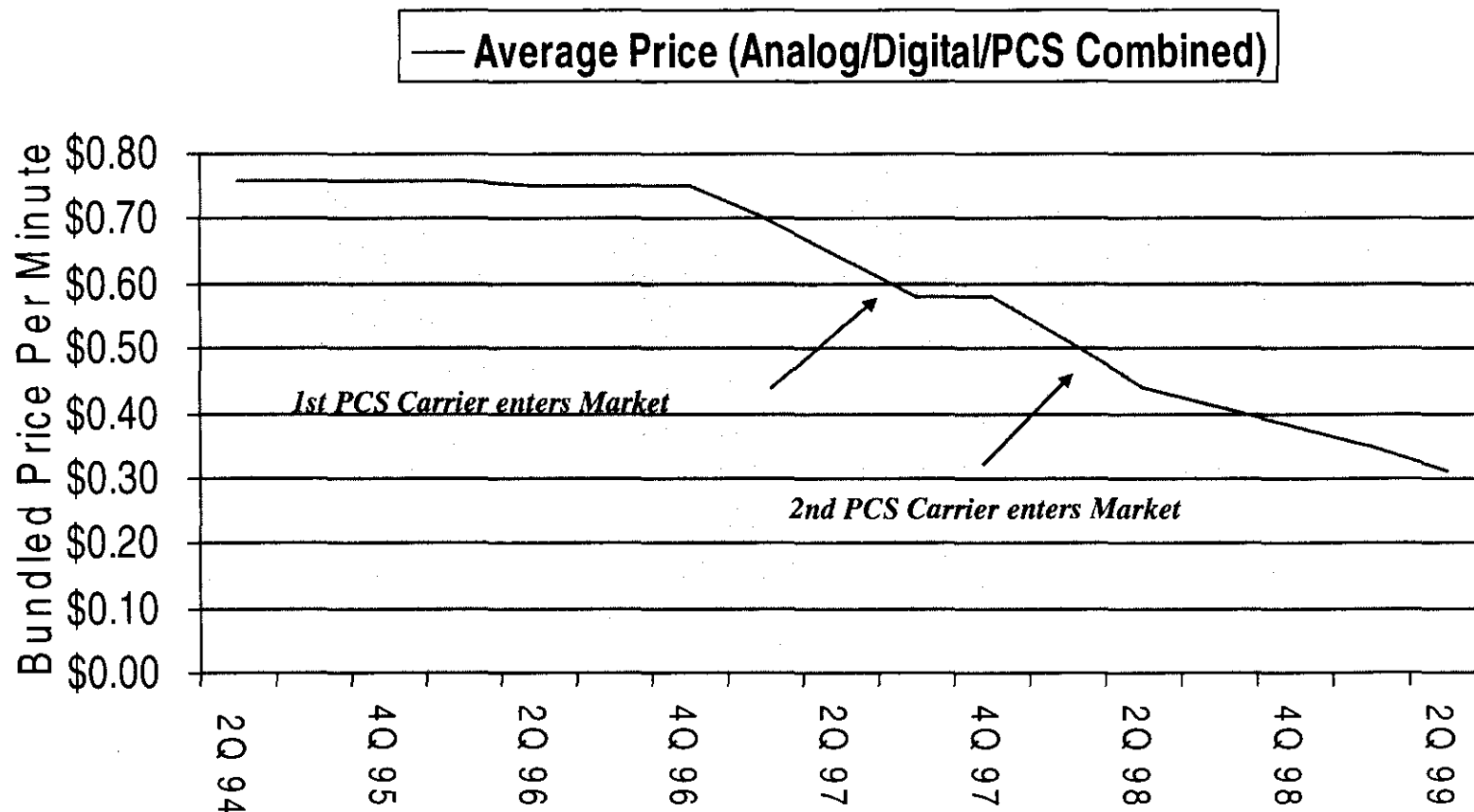
Average Prices in New York Drop with PCS Entry



-Prices dropped 18% after the first PCS carrier entered the market, and fell a further 30% after the second PCS carrier launched service



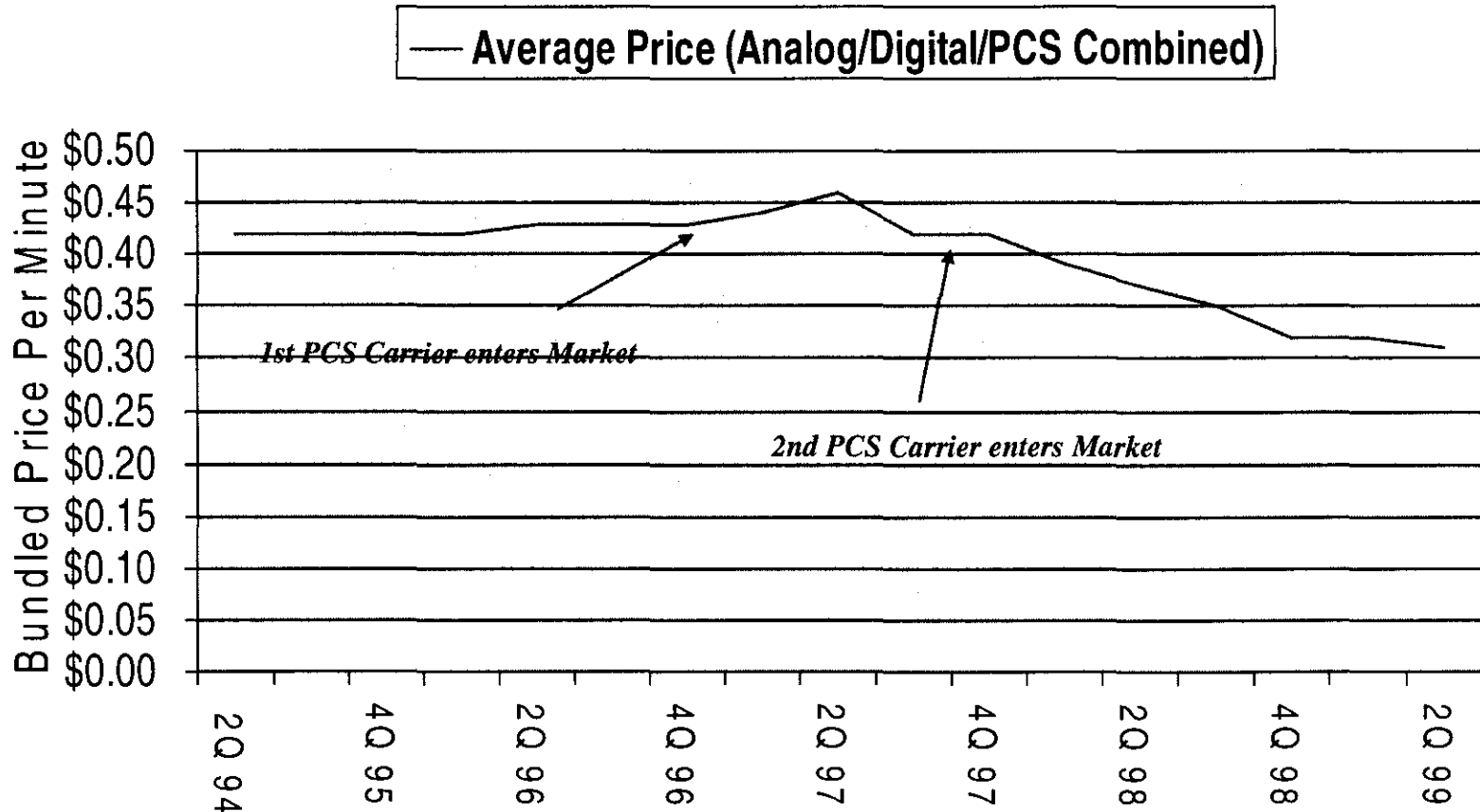
Average Prices in Los Angeles Drop with PCS Entry



-Prices dropped 17% after the first PCS carrier entered the market, and fell a further 46% after the second PCS carrier launched service

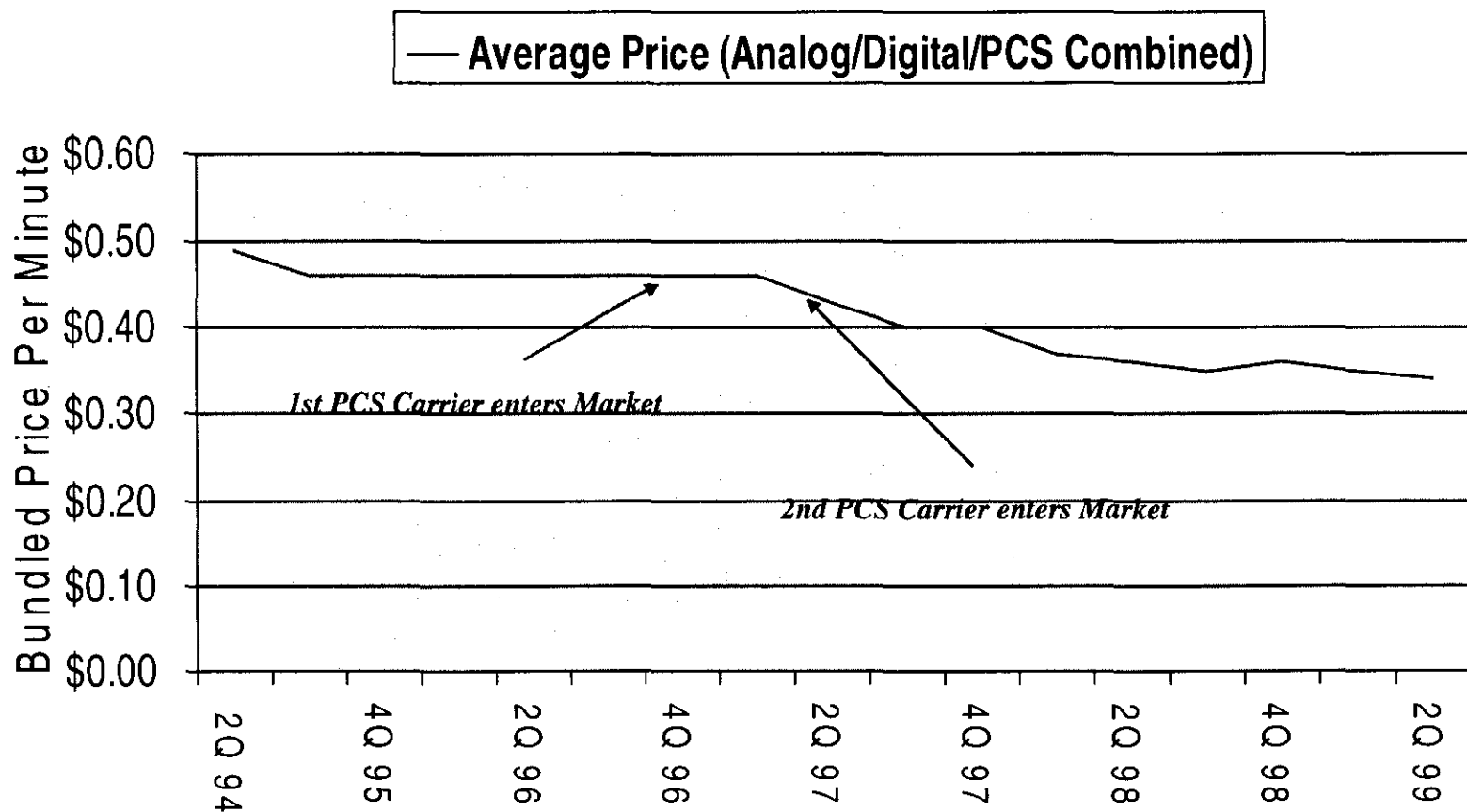


Average Prices in Chicago Drop with PCS Entry



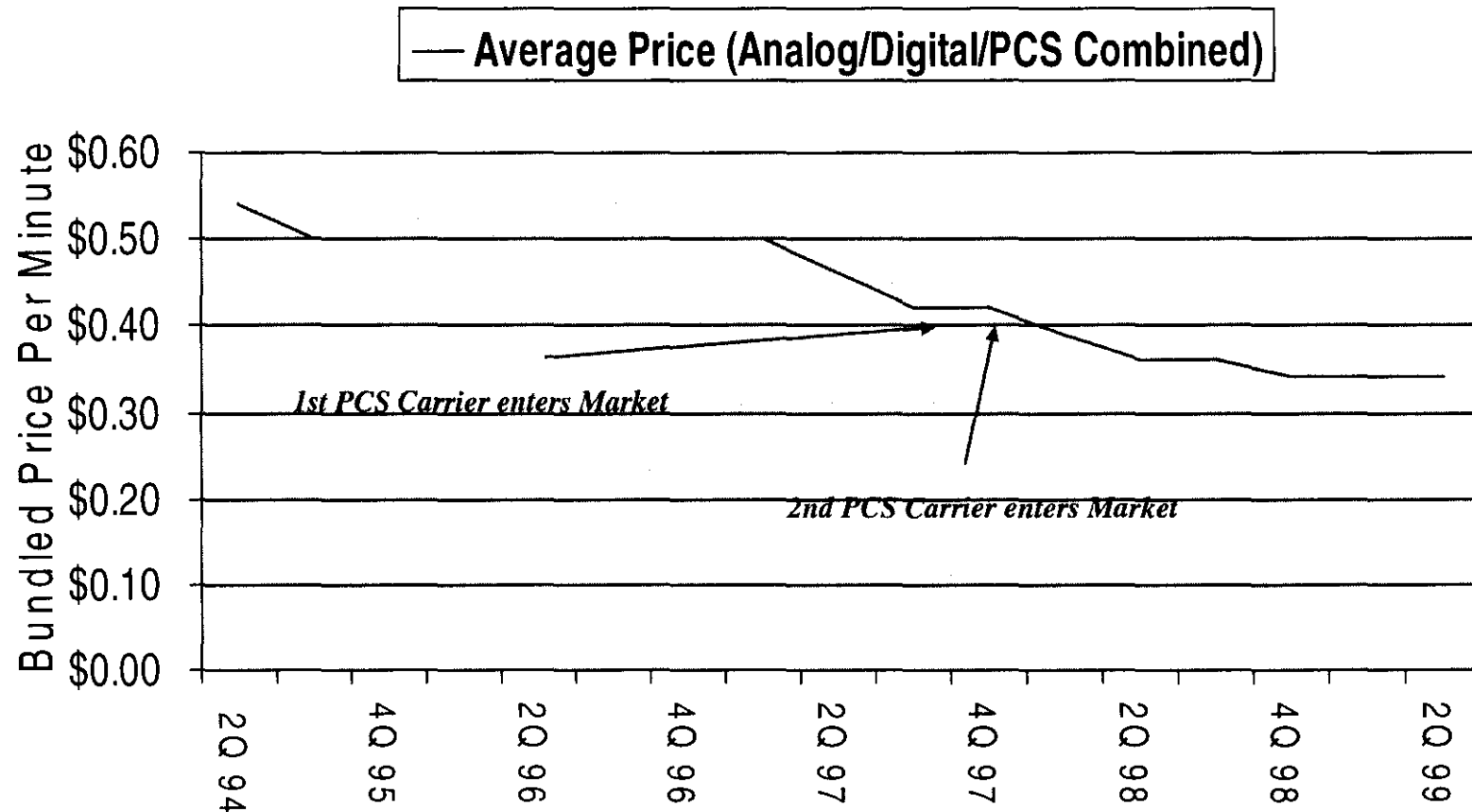
-Prices increased 6% after the first PCS carrier entered the market, but fell 31% after the second PCS carrier launched service

Average Prices in Philadelphia Drop with PCS Entry



*-Prices remained flat until the second PCS carrier launched service
and prices fell 15%*

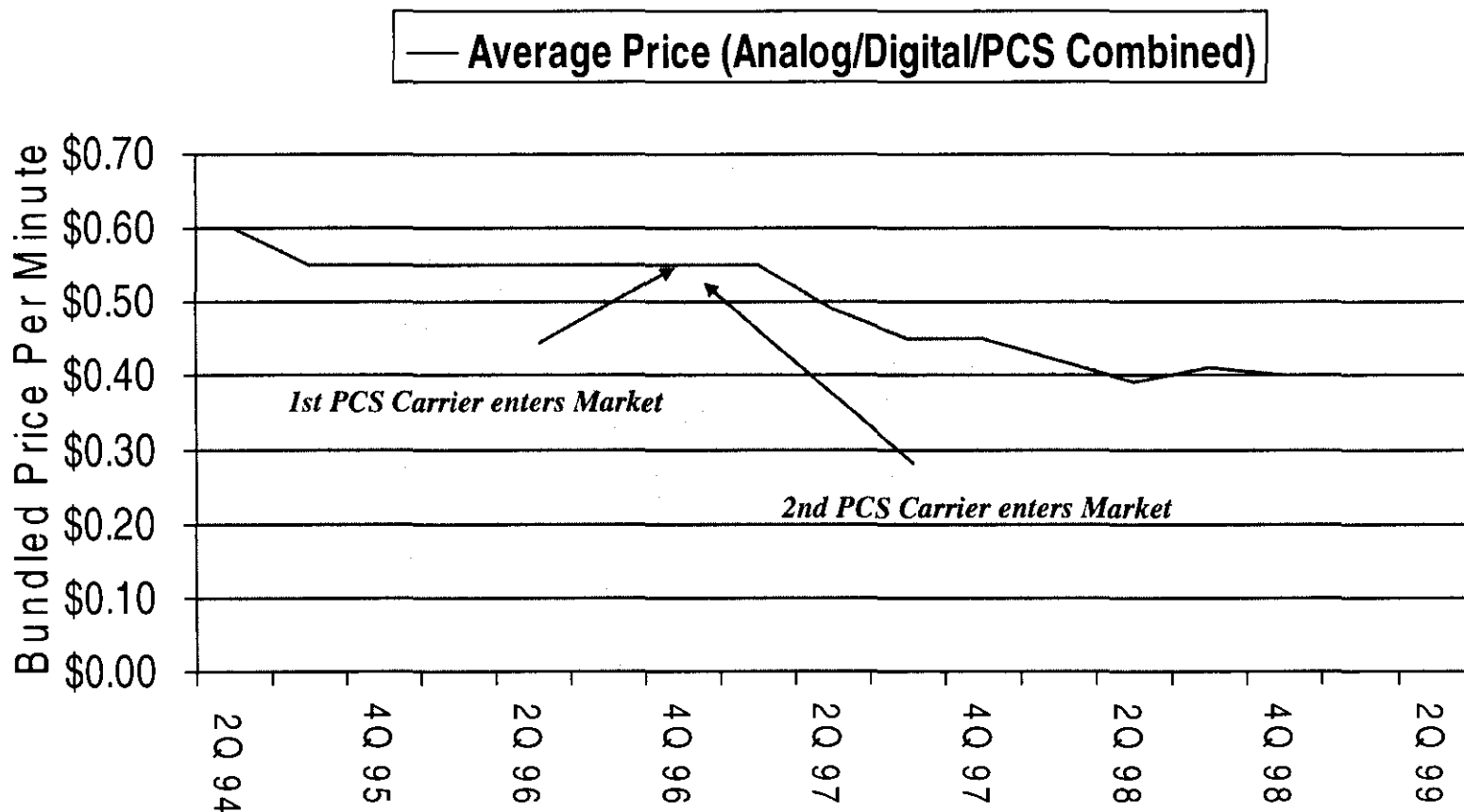
Average Prices in Detroit Drop with PCS Entry



-Prices fell 13% after the first two PCS carriers launched service

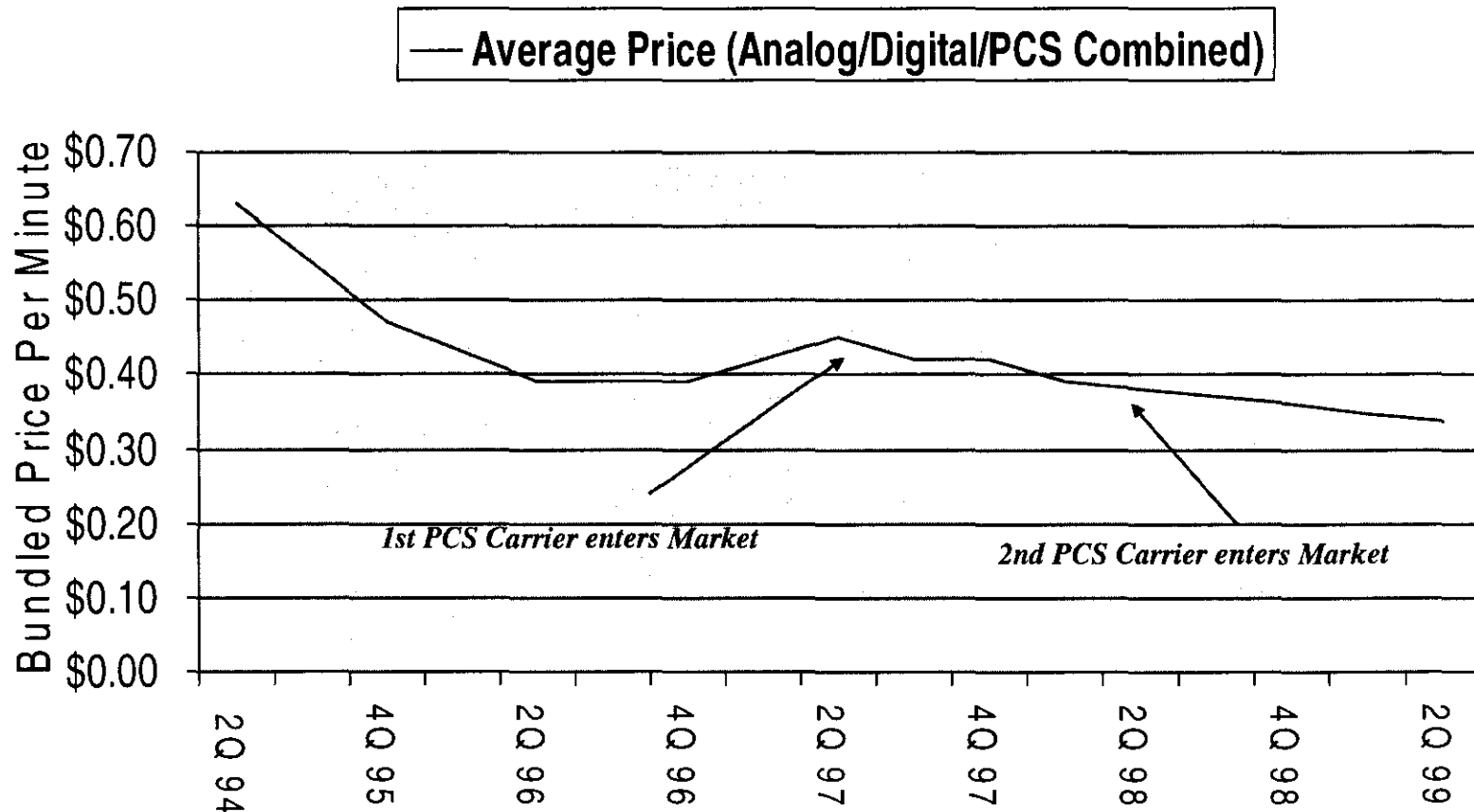


Average Prices in Dallas Drop with PCS Entry



-Prices fell 19% after the first two PCS carriers launched service

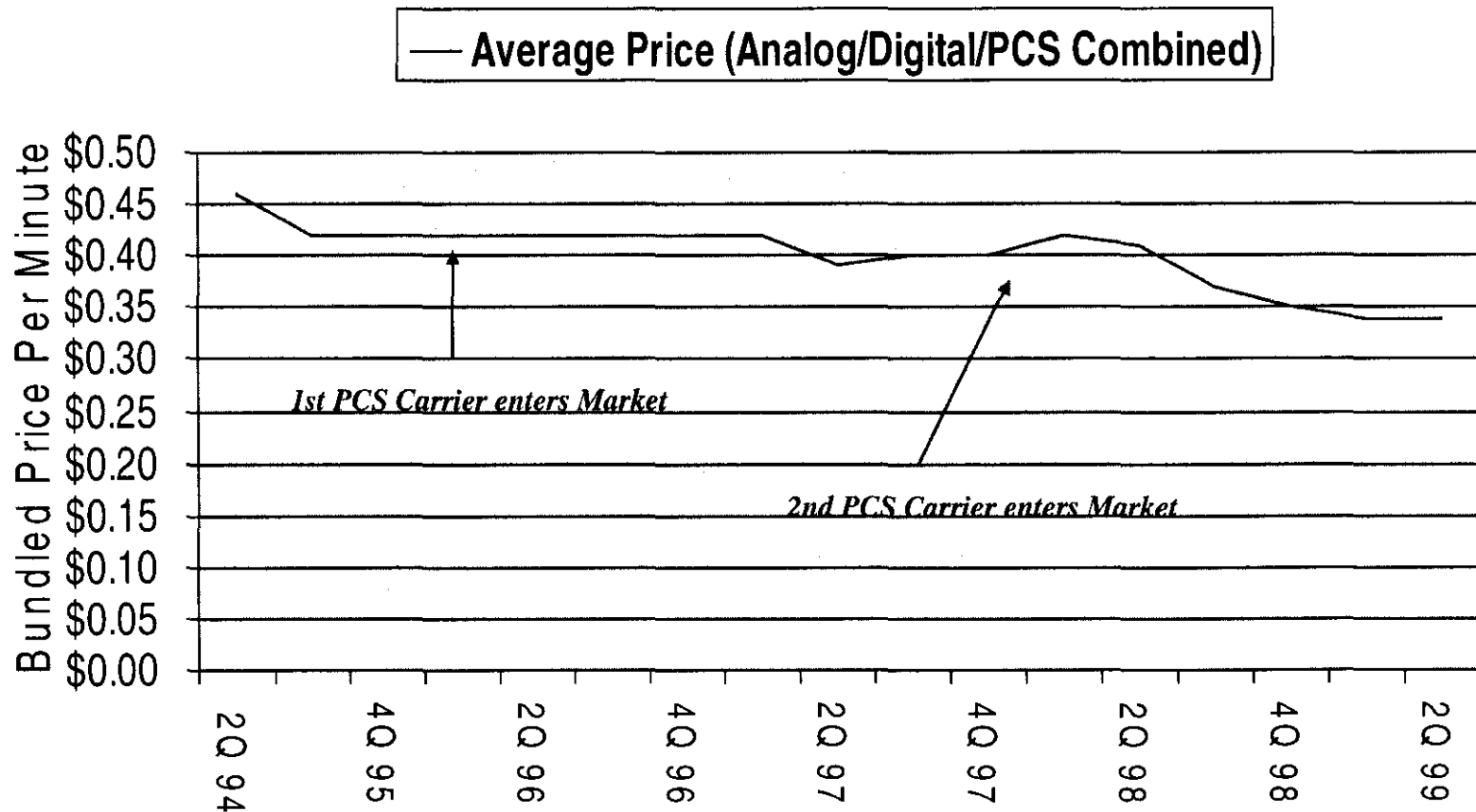
Average Prices in Boston Drop with PCS Entry



-Prices dropped 13% after the first PCS carrier entered the market, and fell a further 12% after the second PCS carrier launched service

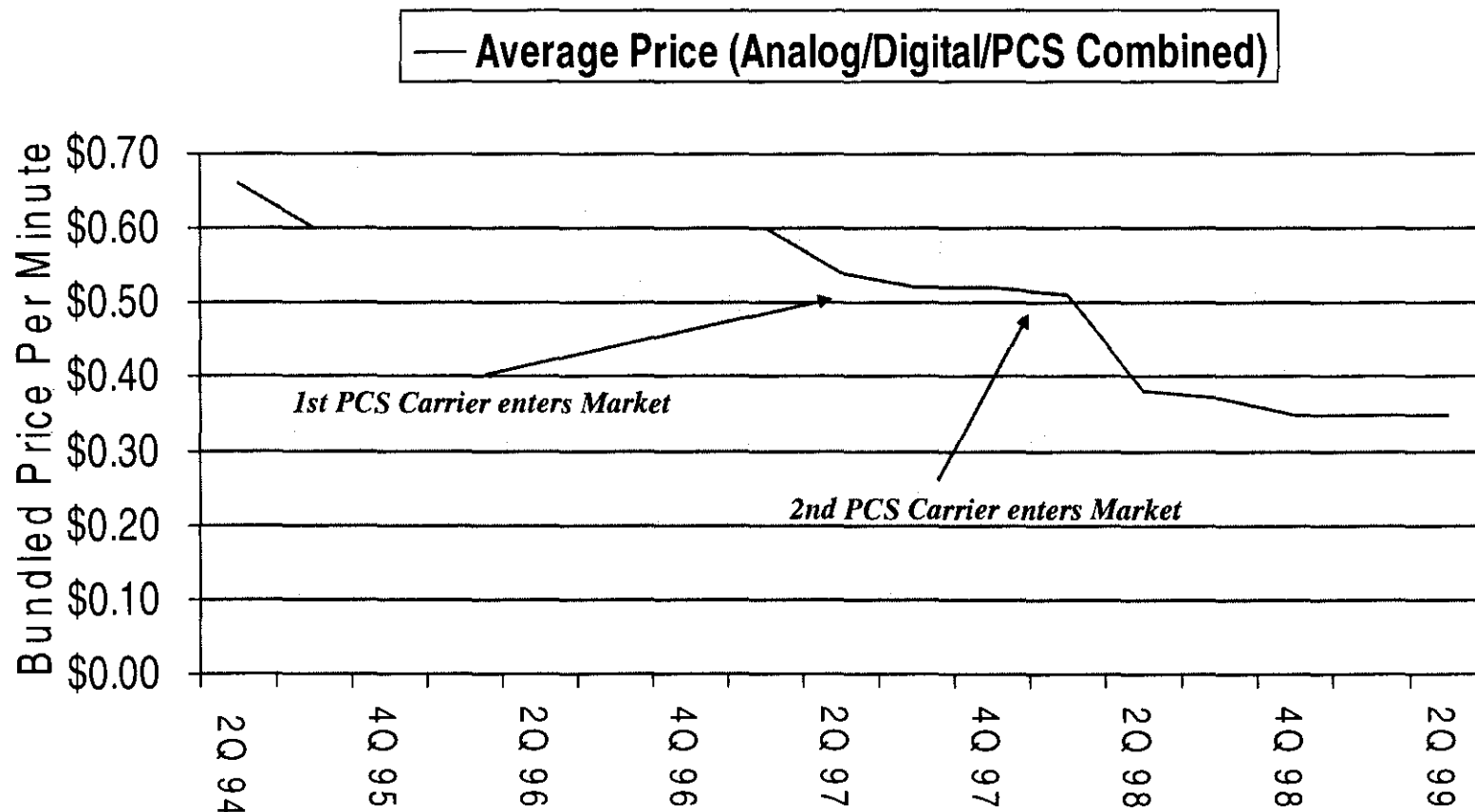


Average Prices in Washington Drop with PCS Entry



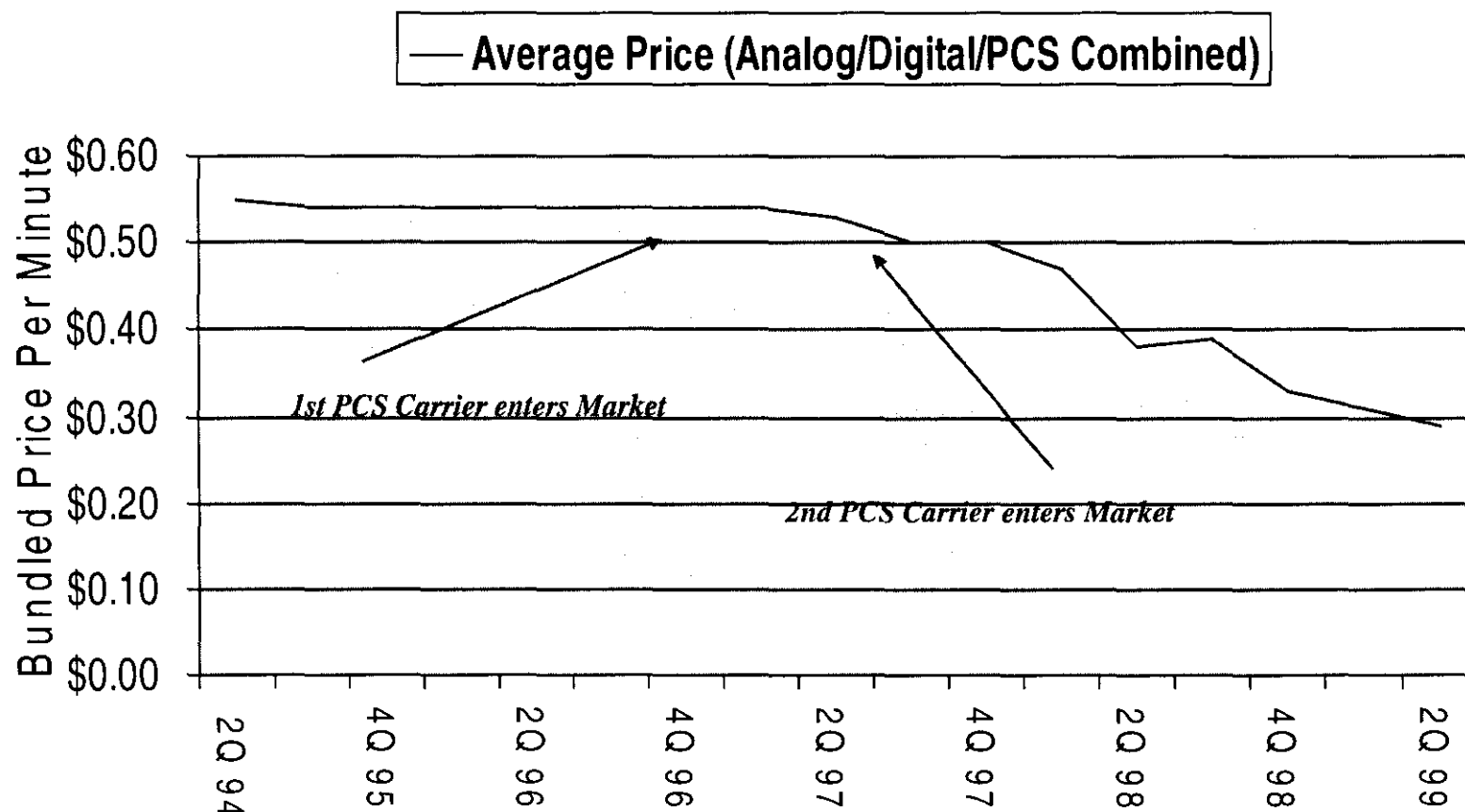
-Prices in Washington have fallen 10% since PCS introduction

Average Prices in San Francisco Drop with PCS Entry



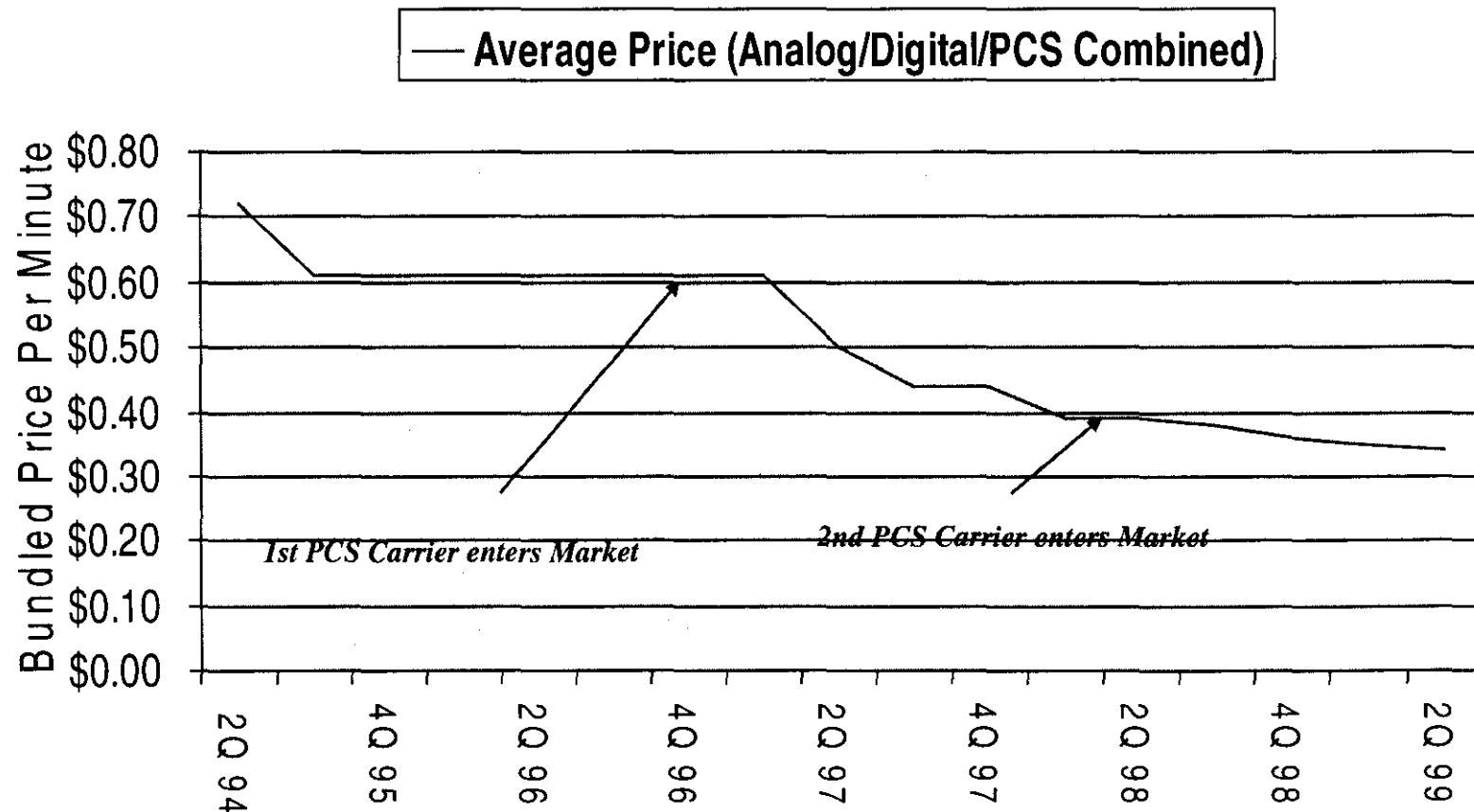
*-Prices dropped 13% after the first PCS carrier entered the market,
and fell a further 34% after the second PCS carrier launched service*

Average Prices in Houston Drop with PCS Entry



-Prices dropped 2% after the first PCS carrier entered the market, and fell a further 37% after the second PCS carrier launched service

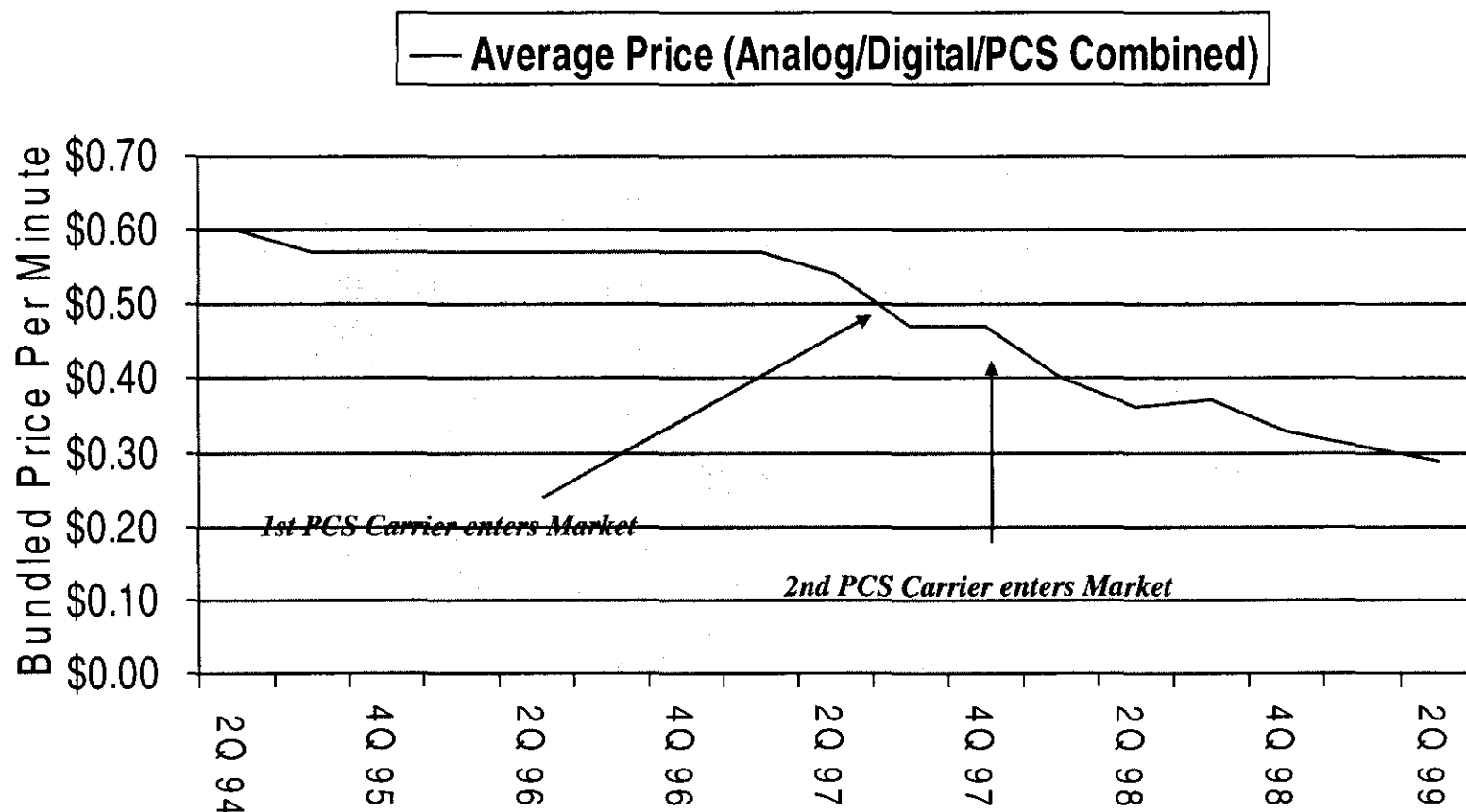
Average Prices in Miami Drop with PCS Entry



-Prices dropped 37% after the first PCS carrier entered the market, and fell a further 12% after the second PCS carrier launched service



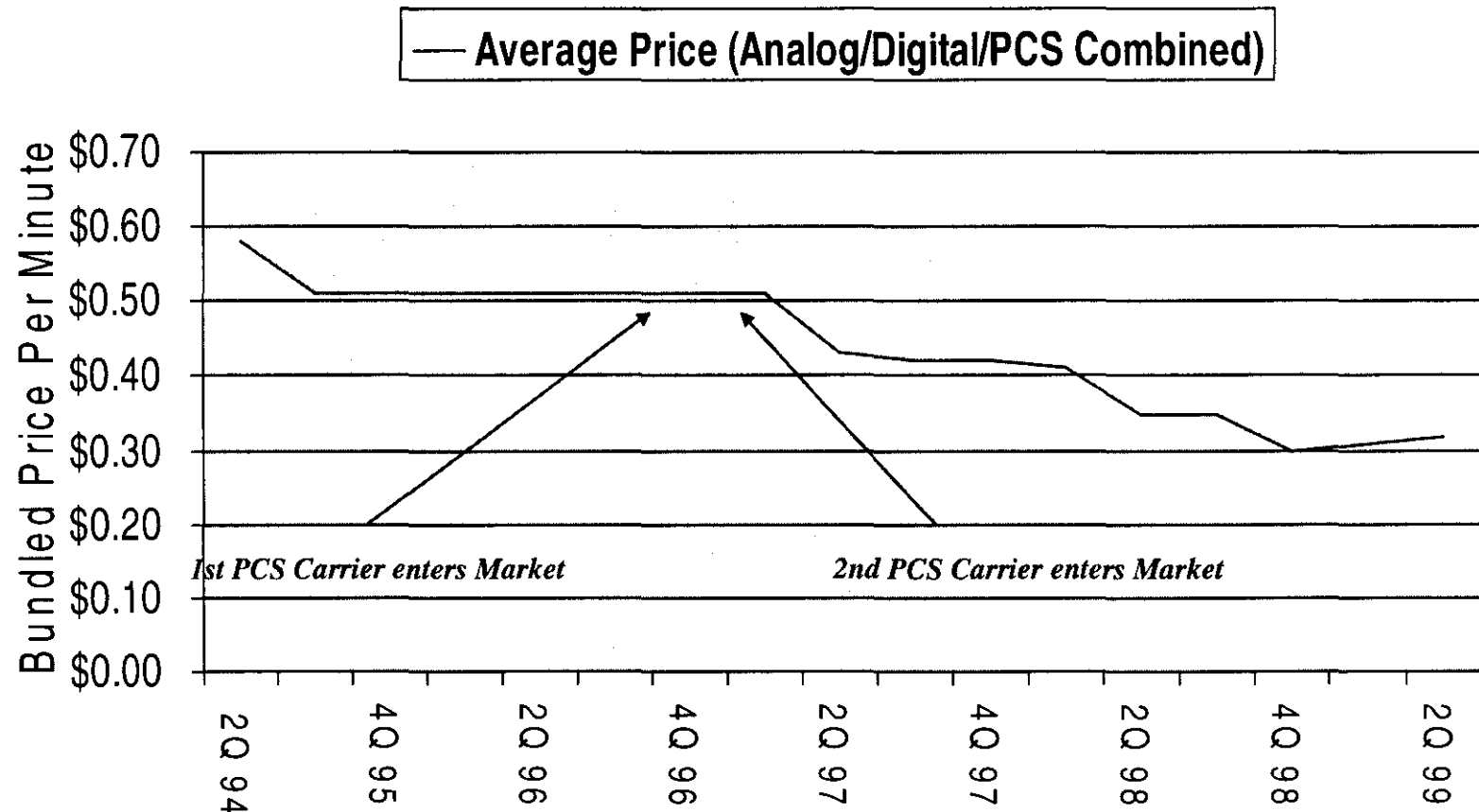
Average Prices in Atlanta Drop with PCS Entry



-Prices dropped 13% after the first PCS carrier entered the market, and fell a further 37% after the second PCS carrier launched service

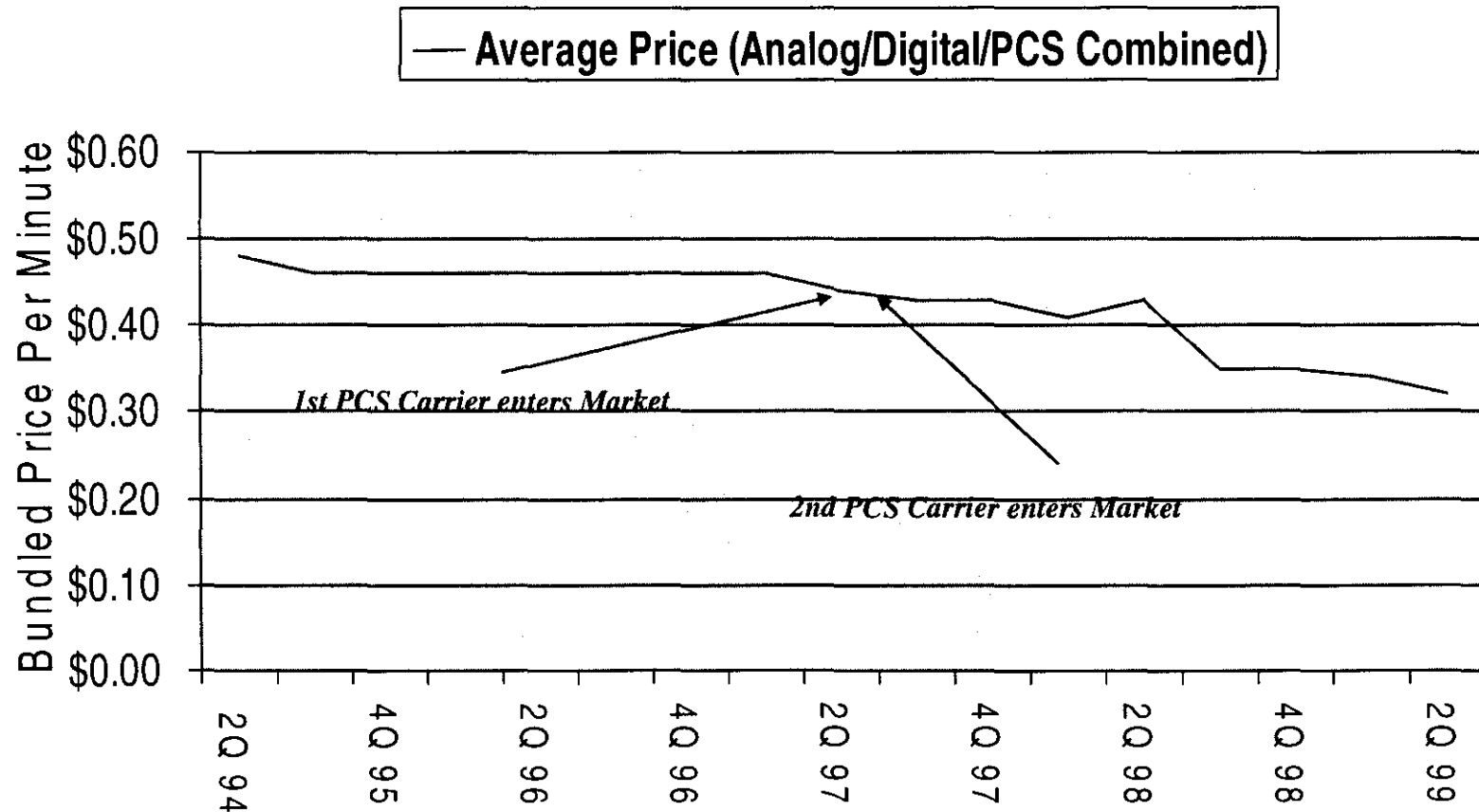


Average Prices in San Diego Drop with PCS Entry



-Prices have fallen 38% since the first 2 PCS carriers launched service

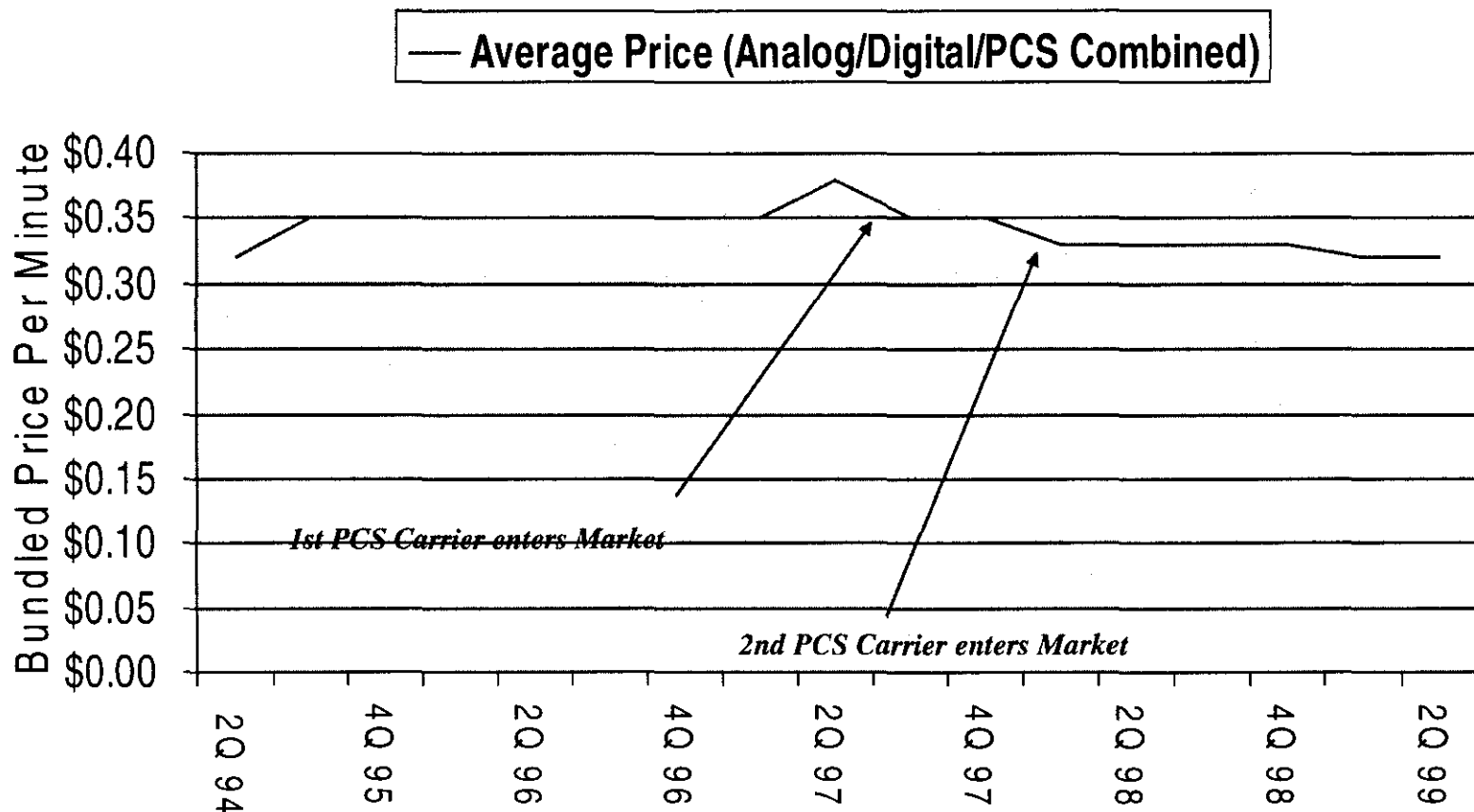
Average Prices in Minneapolis Drop with PCS Entry



-Prices have fallen 27% since the first 2 PCS carriers launch service

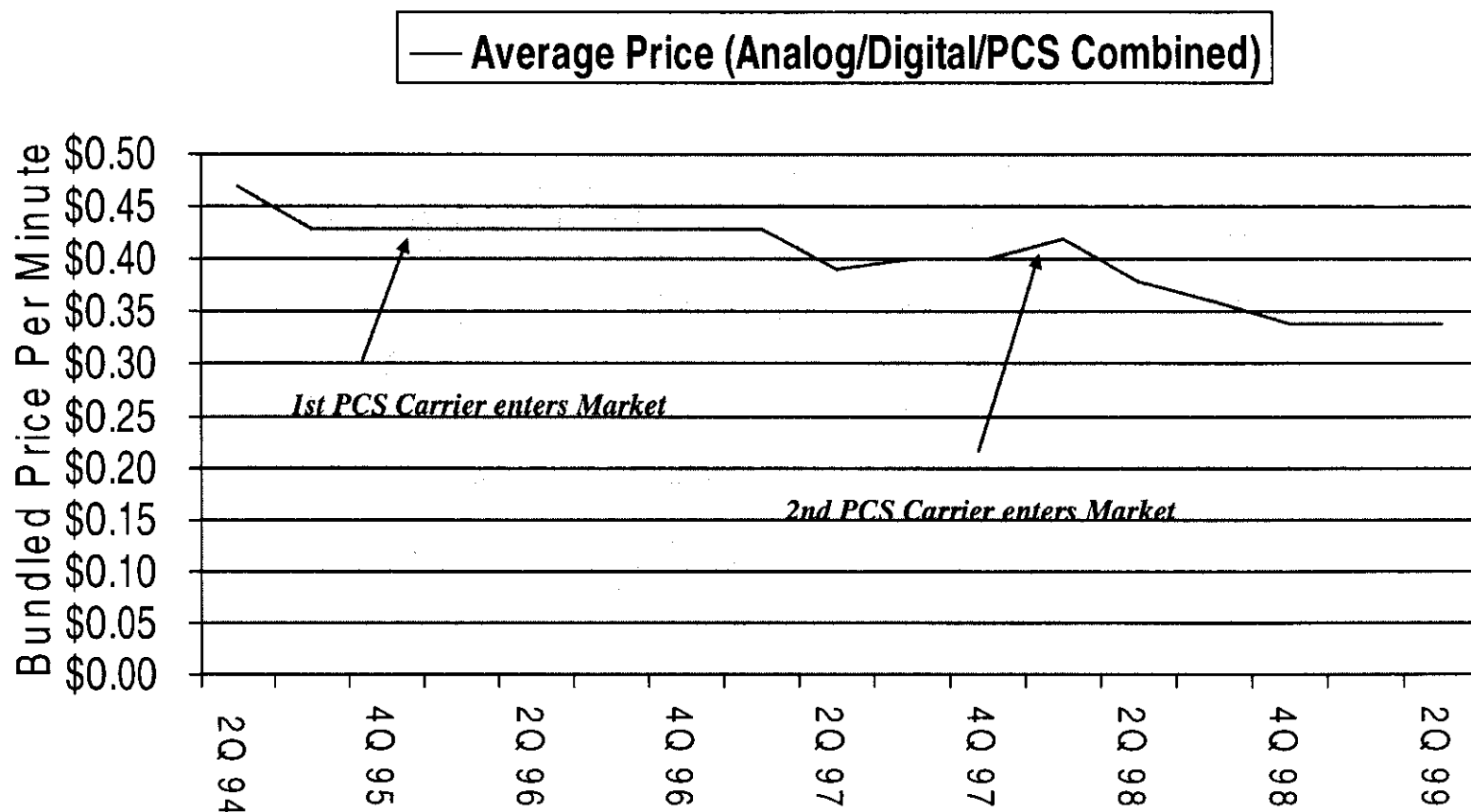


Average Prices in St. Louis Decrease with PCS Entry



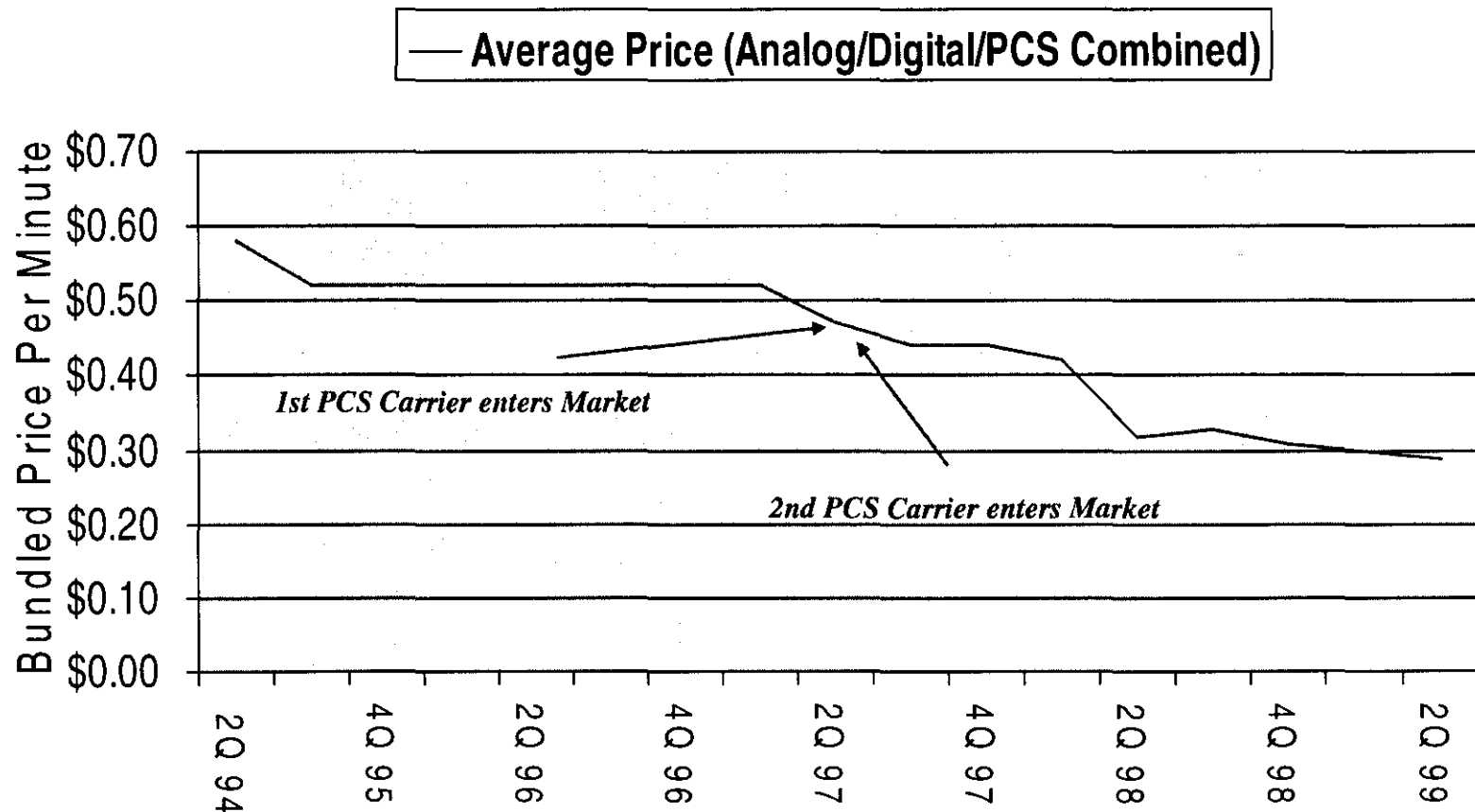
-Prices have not reacted strongly to PCS introduction in St. Louis

Average Prices in Baltimore Drop with PCS Entry



-Prices have fallen 20% since the introduction of PCS to Baltimore

Average Prices in Phoenix Drop with PCS Entry



-Prices have fallen 40% since the first 2 PCS carriers launched service

